

**Key Leadership Points: "Keeping the Momentum"**

- With substantive work accomplished this weekend, the California State Legislature is making real progress in dealing with the current energy crisis. We are dealing with the most urgent and pressing part of the problem --- securing reliable electricity for the citizens of our state.
- Our overriding goal is to keep the power on and get the best deal possible for consumers. We continue to work around the clock to accomplish this goal.
- While the framework of an agreement is an important step --- it is only one step in a longer process to secure our energy future. We have a growing consensus and real momentum, but much hard work remains.

Bush wants a plan

President Bush, voicing alarm that California's energy crisis is spilling over its borders, directed Vice President Cheney and several Cabinet members to develop a plan for the federal government to "act boldly and swiftly." Bush said he wanted a strategy on "how best to cope with high energy prices and how best to cope with reliance on foreign oil, how best to encourage the development of pipelines and power-generating capacity in the country."

Gas Cutoff Next Month, PG&E Warns

Hundreds of thousands of residents of cities including San Francisco, Sacramento and Santa Cruz are likely to have their natural gas cut off as early as mid-February, if federal or state authorities don't rescue PG&E from suppliers' refusal to provide gas, the utility warns.

Homes and businesses could lose gas deliveries for heating, cooking and manufacturing unless Pacific Gas and Electric Co. can assure suppliers of payment, PG&E said in laying out a "doomsday scenario" for state regulators.

The interruptions could last for weeks or months even after the flow of gas is restored, because PG&E workers would need to visit each home to relight pilot lights. Customers who got tired of waiting and tried to do it themselves would risk blowing up their homes, PG&E warned the California Public Utilities Commission.

"Even under optimistic conditions, a gas shortage is likely by the middle of February," Johnson said. Shortfalls would

Governor Davis Announces Rough Consensus On Meeting California's Energy Challenge

Governor Gray Davis today announced the framework of a rough consensus reached with bipartisan leadership of California's Senate and Assembly.

The following principles represent a rough consensus of the Governor and bipartisan leadership:

1. Aggressively promote energy efficiency, conservation, and demand reduction among consumers, businesses and public entities.
2. Increase the supply of electrical generation in California through continuing efforts to streamline permitting and construction of new plants, while protecting the environment, and remove obstacles to the development of distributed generation.
3. Authorize the state to purchase the "net short" electricity needed to serve investor-owned utility customers. The "net short" is the power needed beyond that generated by the utilities themselves or available to them from "qualifying facilities" (QFs) and other long-term contracts. It is anticipated that most of this power will be purchased through long-term contracts with power suppliers.
4. Provide that the state will sell power directly to ratepayers with the investor-owned utilities collecting and remitting a dedicated portion of rate revenues to the State.
5. Reduce the price of power delivered by QFs to the utilities by changing the contracts between the utilities and QFs through action by the PUC and/or the Legislature to a reduced rate agreed to by the QFs.
6. Provide ratepayers with an asset of value such as stock warrants as equity participation in the financial recovery of the utilities. This equity participation will be used either to help retire bonds or otherwise provide tangible benefits to consumers.
7. Continue negotiations with the investor-owned utilities and others on a plan to deal with the unrecovered costs that threaten the economic viability of the utilities while protecting the ratepayers.
8. Resolve outstanding regulatory and legal actions initiated by the utilities to recover all their undercollections.
9. A public authority that could assure adequate power supply and adequate transmission capacity.

trigger “a downward spiral of events from which it would be extremely difficult for the state to recover.”

Forecasters Expect State to Get Past Power Crisis

Most of California's major economic forecasters dismiss the worst fears of consumers and businesses, and doubt the state will be ravaged. What's more, forecasters don't see California falling into even a moderate recession this year, provided that political leaders devise a short-term fix to halt the rolling blackouts.

Their general assessment is that the energy crisis eventually will translate into higher utility bills, a drain on the state treasury or both. These economists say, however, the higher costs will be manageable for the overall economy.

By their reasoning, much of the utility cost increases will be offset by this month's quarter-cent reduction in the state sales tax and a projected decline in gasoline costs. By spring, natural gas prices are expected to drop as winter demand tapers off.

And, since Dec. 21, when it hit a six-month low, the Bloomberg California Index, comprising 594 companies based in the Golden State, is up nearly 14 percent.

Part of the reason California economists downplay concerns of a severe downturn is simply the caution inherent in the forecasting business. On the other hand, the worst fears are fanned by political or business interests that overstate the problems to frighten politicians into action.

Craig Barrett, chief executive of Silicon Valley's Intel Corp., recently made national headlines when he said the computer chip giant wouldn't consider expanding in California. It sounded pretty scary, but the fact is, Intel hasn't built a new factory here since 1988.

But other companies are making concrete changes in their operations--moves which could actually pay dividends for the firms and the state economy.

Take Shasta Paper Co. in the Northern California town of Anderson. Skyrocketing natural gas costs motivated the paper mill to “make every energy improvement we could remotely justify,” according to Brent Hawkins, the company's vice president. The firm converted some of its natural gas-powered equipment to run on coke and recycled motor oil, which reduced gas use dramatically and gave the company a leg up on competitors.

“We're going to break even this month, and we'll be in the black by February,” Hawkins said. “I'm very optimistic about my business.”

Consumer Advocates Urge State to Buy Grid

With momentum building in the Capitol for a utility rescue plan that would give customers of Southern California Edison and Pacific Gas & Electric stock ownership, consumer advocates on Saturday made a pitch for what they call a better alternative: public purchase of the utilities' transmission grid.

The grid--essentially all the wires, transformers and equipment that carry power to homes and businesses--is

valued at more than \$3.2 billion but the savings that could be achieved through public ownership would warrant giving the utilities \$6 billion to \$7 billion, consumer advocates said, enough to help eliminate some debt.

Putting into public hands the grid now owned by Edison, PG&E and San Diego Gas & Electric would clear the way for fast, badly needed expansion that could be paid for through funds borrowed at cheaper rates than the utilities could achieve, they said.

It would lift California out of some of federal oversight and set the stage for better cooperation with municipal utility districts. The money to purchase the grid could be raised through bonds.

In the West, Power-Short California Not Alone

Power managers across the West are warning that the region's entire electric system is under severe stress, and that high prices and tight supplies of energy are likely to burden many western states for months.

The most immediate cause of the West's power shortages and steep rate hikes is the meltdown of California's partially deregulated and dysfunctional energy market. But the long-term problem is this: Supply and demand are unbalanced throughout the region.

The western power grid -- the public-private system that generates electricity and delivers it through transmission lines to consumers -- is overtaxed because of the energy needs created by a booming economy and explosive population growth. The grid is also suffering from a dearth of new power plant construction and a neglect of conservation measures.

While many voices in Washington, D.C., and the West depict California as an electricity hog, in fact most of the increased demand for electricity comes not from California, but from other western states.

About 85 percent of the growth in electricity demand in the last five years in the West has occurred outside California.

A Fable That Outdoes Aesop for Folly

The best analogy about California's electricity deregulation comes from Richie Ross, a political consultant.

The private utilities never were real businesses, Ross observes. They were tweeners--somewhere between a government entity and a competitive enterprise. Sort of like a domestic animal. Protected and productive. Like a cow.

“One day they turned the cow loose into the wild,” Ross says, “and it was eaten.” --George Skelton, *LA Times*

Wastewater power

Lake County is turning its wastewater into electricity -- enough to power thousands of households. Touted as “the world's first wastewater-to-electric recycling system,” the Lake County experiment has pumped new life into The Geysers, the nation's oldest geothermal energy complex. Now Lake County is planning to expand the project. And Santa Rosa has joined the effort, starting work on its own wastewater pipeline to The Geysers.